

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Joseph County Conservation District	County St. Joseph
Fiscal Year End September 30, 2006	Opinion Date June 11, 2007	Date Audit Report Submitted to State July 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

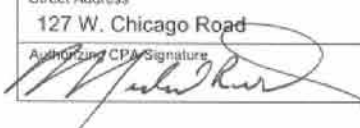
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations.	
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and on Internal Control.	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State MI
Authorized CPA Signature 		License Number 1101017570	Zip 49091
Printed Name Michael R. Wilson CPA			

ST. JOSEPH COUNTY CONSERVATION DISTRICT
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

ST. JOSEPH COUNTY CONSERVATION DISTRICT

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Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npnr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors

St. Joseph County Conservation District

Centreville, MI 49032

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the St. Joseph County Conservation District as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the St. Joseph County Conservation District, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrold T. Norman (1941-1982)

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Joseph County Conservation District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2007, on our consideration of the St. Joseph County Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Norman J. Paulson, P.C.

June 11, 2007

ST. JOSEPH COUNTY CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the St. Joseph County Conservation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the St. Joseph County Conservation District for the fiscal year ended September 30, 2006.

FINANCIAL HIGHLIGHTS

- * The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$14,169 (net assets). Of this amount, \$14,169 (unrestricted net assets) may be used to meet the District's ongoing obligations.
- * The District's total net assets increased by \$7,367 during the year.
- * At the end of the current fiscal year, unreserved fund balance for the General Fund was \$9,031 or 6.9 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. To simplify financial reporting and improve readability, the government-wide financial statements and fund financial statements have been combined to report the statement of net assets and general fund balance on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14,169 at the close of the most recent fiscal year.

Districts Net Assets			
		<u>2006</u>	<u>2005</u>
Current assets		\$ 22,688	\$ 23,075
Capital assets (net)		<u>-</u>	<u>1,098</u>
Total assets		<u>22,688</u>	<u>24,173</u>
LIABILITIES		<u>8,519</u>	<u>17,371</u>
Net assets:			
Investment in capital assets		-	1,098
Unrestricted		<u>14,169</u>	<u>5,704</u>
Total net assets		<u>\$ 14,169</u>	<u>\$ 6,802</u>

ST. JOSEPH COUNTY CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's net assets increased by \$7,367 during the fiscal year due to additional revenue received from a recycling grant, and a reduction in salary and benefit expenses due to staff cuts. Management will continue to seek ways to get funding through grants for projects and staff.

District's Condensed Statement of Net Assets

Revenues:

	2006	2005
State Grants	\$ 47,450	\$ 46,559
Local Grants	28,932	26,000
Charges for Services	54,552	41,465
Interest	628	280
Donations	1,421	18,976
Other	<u>767</u>	<u>3,593</u>
Total Revenues	133,750	136,873

Program Expenses:

Operations	53,372	70,135
Groundwater Stewardship	27,723	25,901
Soil Erosion	20,214	24,518
County Recycling	4,800	-
Heritage Water Trails	3,141	3,221
319 Grant	-	8,928
Reforestation	16,035	17,639
Depreciation	<u>1,098</u>	<u>3,294</u>
Total Expenses	<u>126,383</u>	<u>153,636</u>

Change in Net Assets	<u>\$ 7,367</u>	<u>\$ (16,763)</u>
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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's sole governmental fund reported an ending fund balance of \$9,031, a decrease of \$1,967 in comparison with the prior year. All of the fund balance is unreserved and represents approximately 7 percent of total General Fund expenditure.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Changes in the District's original budget were as follows:

Local grant revenue was increased \$15,900 to match amounts that the County appropriated into its budget. Charges for Services were increased \$24,010 to more correctly match sales of Soil Erosion Permits. Several large unusual ones were sold during the fiscal year.

Expenditures for recycling were added as a grant was received for the program after the original budget had been prepared, and the program had not been included in the original budget. Soil Erosion expenditures were increased \$23,305 as additional expenses were incurred with the sale of more permits than expected.

Actual revenues were within \$7,907 of final budgeted revenues or 5.8 percent. This difference was mainly due to a contribution reimbursement that was expected, but not received in time to be included in this year's revenues.

Actual expenditures were within \$5,359 of final budgeted expenditures or 4.0 percent. This difference was mainly due to changes in staffing levels and its effect on wages and benefits.

Capital assets. The District's investment in capital assets as of September 30, 2006, amounts to \$-0- (*net of accumulated depreciation*). There were no significant additions or deletions during the year.

Economic Condition and Outlook

The overall increase in net assets was a result of a decrease in personnel, and an additional local grant for recycling. There is some anxiety regarding potential budget shortfalls due to elimination of state revenue sharing at the local level, and the loss of a state grant. Management will continue to encourage the wise management of natural resources by providing conservation programs, technical, and financial assistance, and conservation education.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Tim Peterson, Executive Director
693 East Main Street
Centreville, MI 49032

Phone: (269) 467-6336

ST. JOSEPH COUNTY CONSERVATION DISTRICT

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

Current Assets

Cash	\$ 2,816
Accounts receivable	10,057
Due from other units	5,858
Prepaid assets	1,991
Inventories	<u>1,966</u>

Total current assets 22,688

Fixed Assets

Equipment	16,470
(Less accumulated depreciation)	<u>(16,470)</u>

Total fixed assets -

Total assets \$ 22,688

LIABILITIES

Current Liabilities

Accounts payable	\$ 1,661
Accrued wages	1,597
Payroll and sales tax liabilities	<u>4,541</u>

Total current liabilities 7,799

Non-Current Liabilities

Compensated absences	<u>720</u>
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Total liabilities 8,519

NET ASSETS

Unrestricted	<u>14,169</u>
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Total Liabilities and Net Assets \$ 22,688

The Notes to the Financial Statements are an integral part of these statements

ST. JOSEPH COUNTY CONSERVATION DISTRICT

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Operations	\$ 53,372	\$ 12,979	\$ 1,120	\$ (39,273)
Groundwater Stewardship	27,723	-	28,350	627
Soil Erosion	20,214	19,238	8,000	7,024
County Recycling	4,800	-	6,932	2,132
Heritage Water Trails	3,141	1,018	200	(1,923)
Reforestation	16,035	21,317	1	5,283
Depreciation	<u>1,098</u>	<u>-</u>	<u>-</u>	<u>(1,098)</u>
Total Government Activities	126,383	54,552	44,603	(27,228)
General revenues:				
State Grants				19,200
Local Grants				14,000
Reimbursements				201
Interest Income				628
Miscellaneous				<u>566</u>
Total General Revenues				<u>34,595</u>
CHANGE IN NET ASSETS				7,367
NET ASSETS - OCTOBER 1, 2005				<u>6,802</u>
NET ASSETS - SEPTEMBER 30, 2006				<u><u>\$ 14,169</u></u>

The Notes to the Financial Statements are an integral part of these statements

ST. JOSEPH COUNTY CONSERVATION DISTRICT

GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2006

ASSETS

Cash	\$	2,816
Accounts receivable		10,057
Prepaid assets		1,991
Inventories		<u>1,966</u>
Total assets	\$	<u>16,830</u>

LIABILITIES

Accounts payable	\$	1,661
Accrued wages		1,597
Payroll and sales tax liabilities		<u>4,541</u>
Total liabilities		7,799

FUND BALANCE

Unreserved		<u>9,031</u>
Total liabilities and fund balance	\$	<u>16,830</u>

The Notes to the Financial Statements are an integral part of these statements

ST. JOSEPH COUNTY CONSERVATION DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENT FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total Government Fund Balances \$ 9,031

Total net assets reported for governmental activities
in the statement of net assets are different from the
amount reported as total governmental funds fund
balance because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in
the fund statements.

Capital Assets	16,470
Accumulated Depreciation	<u>(16,470)</u>
Net Capital Assets	-

Receivables not currently available to pay for current
activities, are not financial resources and therefore
are not reported in the fund statements.

Receipts for Services 5,858

Compensating absences (vacation pay) are recorded in
the government-wide statements if they are 1) attributable
to services already rendered, and 2) are not contingent
on a specific event (such as an illness). However,
these amounts are not recorded in the governmental funds
until paid.

Accrued Vacation/Sick Pay	<u>(720)</u>
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Total Net Assets - Governmental Activities \$ 14,169

The Notes to the Financial Statements are an integral part of these
statements

ST. JOSEPH COUNTY CONSERVATION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

REVENUES

State Grants	\$ 47,450
Federal Grants	-
Local Grants	28,932
Charges for Services	27,369
Sales	21,325
Interest Income	628
Reimbursements	201
Donations	1,421
Miscellaneous	<u>566</u>

Total Revenues 127,892

EXPENDITURES

Operations	57,946
Groundwater Stewardship	27,723
Soil Erosion	20,214
County Recycling	4,800
Heritage Water Trails	3,141
Reforestation	<u>16,035</u>

Total Expenditures 129,859

NET CHANGE (1,967)

FUND BALANCES - BEGINNING 10,998

FUND BALANCES - ENDING \$ 9,031

The Notes to the Financial Statements are an integral part of these statements

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

ST. JOSEPH COUNTY CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION OF CONSERVATION DISTRICT OPERATIONS

The St. Joseph County Conservation District organized in 1948 under PA 297 of 1937, as amended, for the purpose of providing guidance and involvement in the promotion of soil conservation in St. Joseph County, Michigan. The District is a local unit of State Government governed by PA 451 of 1994, as amended, which operates under the direction of a board of directors. The Board oversees the development and implementation of soil and water conservation activity in St. Joseph County, Michigan.

The District was formed to carry out the policy of legislature. The policy of the legislature is to provide for the conservation of the natural resources of the state, including soil, water, farmland, and other natural resources, and to provide for the control and prevention of soil erosion, and thereby to conserve the natural resources of this state, control floods, prevent impairment of dams and reservoirs, assist in maintaining the navigability of rivers and harbors, preserve wildlife, protect the tax base, protect public lands, and protect and promote health, safety, and general welfare of the people of this state.

The Reporting Entity

In accordance with generally accepted accounting principals and Governmental Accounting Standards Board (GASB) Statement No. 14 "*The Financial Reporting Entity*" certain other governmental organizations are not considered to be part of the District entity for financial reporting purposes. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the potential component unit data was not included. The District has determined that no other outside organization meets the above criteria and, therefore, no other entity has been included as a component unit in the District's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph County Conservation District (the District) conform to accounting principals generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the St. Joseph County Conservation District:

ST. JOSEPH COUNTY CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In June, 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- a. A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- b. Financial statements prepared using full accrual accounting for all of the District's activities.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

- a. **Reporting Entity** - The St. Joseph County Conservation District is governed by an elected six member board.
- b. **Government-Wide and Fund Financial Statements** - The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

- c. **Measurement Focus, Basis of Accounting and Financial Statement Presentation** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Due from Other Units - The St. Joseph County Conservation District receives contribution revenues based upon a reimbursement plan. This, expenditures are incurred then remitted to the State for reimbursement. At September 30, 2006, \$5,858 was yet to be received.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

d. Assets, Liabilities, and Net Assets or Equity -

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Capital assets, which include vehicles, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Vehicles are being depreciated using the straight-line method over the following useful life: 5 years

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Compensated Absences (Vacation and Sick Leave - It is the District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are being adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

The District begins its budgeting process in July of each year. At the July board meeting the administrator/executive director should provide a report to the board containing information required by the MDA Accounting Manual. The budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain public comments.

Prior to September 30, the budget is legally adopted.

The budget shown in these financial statements are as last amended through September 30, 2006.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental data section of the financial statements, the District's actual expenditures and budgeted expenditures have been shown on a functional basis. The approved budget of the District was adopted on a line item level. The District does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - based on the functional level as reported, the District incurred expenditures that exceeded line item budgeted amounts as follows:

	<u>Budget Amount</u>	<u>Actual Expenditures</u>	<u>Excess Over Budget</u>
Printing and Publishing	\$ -	\$ 911	\$ 911
Shipping and Handling	500	2,443	1,943
Administrative Wages	10,500	12,258	1,758
Annual Leave Wages	3,400	4,162	762

In total, the District's expenditures were under budget by \$5,359.

NOTE 4 - DEPOSITS AND INVESTMENTS

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - Continued

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50 percent of any fund may be invested in commercial paper at any time.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan compiled laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State Surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

At September 30, 2006, the cash and deposits of the District consisted of the following:

Deposits - Sweep Account	\$ 1,655
Cash on Hand	<u>1,161</u>
Total	<u>\$ 2,816</u>

Deposits - At September 30, 2006, the District had deposits with a carrying amount of \$1,655 and a bank balance of \$2,987, all of which is covered by federal depository insurance.

The District evaluates the financial institution it deposits funds with and assesses the level of risk with this institution; only institutions with an acceptable estimated risk level are used as depositories. The District deposits are in accordance with statutory authority.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 5 - POST EMPLOYMENT BENEFITS

The District currently does not provide post employment benefits to employees.

NOTE 6 - ACCOUNTS RECEIVABLE

At September 30, 2006, accounts receivable consisted of the following:

	<u>Accounts Receivable</u>	<u>Due from Other Governments</u>	<u>Total</u>
Due from Customers	\$ 10,057	\$ -	\$ 10,057
Due from State	<u>-</u>	<u>5,858</u>	<u>5,858</u>
Total	<u>\$ 10,057</u>	<u>\$ 5,858</u>	<u>\$ 15,915</u>

NOTE 7 - FIXED ASSETS

The District has maintained a fixed asset listing for operational control and insurance purposes. The fixed asset value is shown in these financial reports as required by the Michigan Department of Agriculture, net of related accumulated depreciation. A summary of the changes in fixed assets follows:

	<u>Balance 9/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/06</u>
General Fund Equipment:				
Equipment	\$ 16,470	\$ -	\$ -	\$ 16,470
Accumulated Deprec.	<u>(15,372)</u>	<u>(1,098)</u>	<u>-</u>	<u>(16,470)</u>
Total	<u>\$ 1,098</u>	<u>\$ (1,098)</u>	<u>\$ -</u>	<u>\$ -</u>

Starting with fiscal year ending September 30, 2004, the District began depreciating equipment not purchased with government funding over their estimated useful lives. The Board has adopted a policy that addresses the capitalization threshold and the depreciation of fixed assets.

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the District for the year ended September 30, 2006:

	Balance <u>9/30/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9/30/06</u>
Long-term debt:				
Accumulated				
Compensation	\$ 5,294	\$ 720	\$ 5,294	\$ 720

The liability for accumulated compensation represents amounts owed to employees for accumulated sick pay, vacation pay, and compensatory time as of September 30, 2006. This liability is shown on the Government-Wide Statement of Net Assets.

Using the criteria established in Governmental Accounting Standards Board Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated.

NOTE 10 - DONATED SERVICES

The District's office is located in a building owned by the Michigan Department of Agriculture. The District is given a furnished office including utilities and phone service at no charge. The rental value of these facilities has not been determined, and therefore is not included in the revenues and expenditures in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
State Grants	\$ 50,500	\$ 48,700	\$ 47,450	\$ (1,250)
Federal Grants	-	5,500	-	(5,500)
Local Grants	13,000	28,932	28,932	-
Charges for Services	3,500	27,510	27,369	(141)
Sales	22,500	21,108	21,325	217
Interest Income	500	700	628	(72)
Reimbursements	200	2,089	201	(1,888)
Donations	1,000	1,220	1,421	201
Miscellaneous	<u>2,000</u>	<u>40</u>	<u>566</u>	<u>526</u>
Total Revenues	93,200	135,799	127,892	(7,907)
EXPENDITURES				
Operations	45,000	56,179	57,946	(1,767)
Groundwater Stewardship	22,500	30,160	27,723	2,437
Soil Erosion	500	23,805	20,214	3,591
County Recycling	-	6,932	4,800	2,132
Heritage Water Trails	2,500	3,142	3,141	1
Reforestation	<u>18,600</u>	<u>15,000</u>	<u>16,035</u>	<u>(1,035)</u>
Total Expenditures	<u>89,100</u>	<u>135,218</u>	<u>129,859</u>	<u>5,359</u>
NET CHANGE	4,100	581	(1,967)	(2,548)
FUND BALANCES - BEGINNING	<u>10,998</u>	<u>10,998</u>	<u>10,998</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 15,098</u>	<u>\$ 11,579</u>	<u>\$ 9,031</u>	<u>\$ (2,548)</u>

OTHER SUPPLEMENTARY INFORMATION

ST. JOSEPH COUNTY CONSERVATION DISTRICT

**SUPPLEMENTAL SCHEDULE OF REVENUES
AND EXPENDITURES BY PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Operating</u>	<u>Groundwater Stewardship</u>	<u>Soil Erosion</u>	<u>County Recycling</u>
REVENUES				
State Grants	\$ 19,200	\$ 28,250	\$ -	\$ -
Local Grants	14,000	-	8,000	6,932
Charges for Services	7,121	-	19,238	-
Sales	-	-	-	-
Interest Income	628	-	-	-
Reimbursements	112	-	-	-
Donations	1,120	100	-	-
Miscellaneous	<u>527</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	42,708	28,350	27,238	6,932
EXPENDITURES				
Salaries and Wages	28,916	17,289	15,792	4,383
Payroll Taxes	2,237	1,431	1,287	335
Fringe Benefits	2,953	2,966	1,342	29
Items for Resale	4,871	-	-	-
Office Supplies	1,973	73	101	-
Legal and Accounting	167	167	166	-
Contracted Services	10,366	-	324	-
Employee Training	524	641	-	-
Travel and Mileage	1,025	485	528	-
Bank Service Charges	329	-	-	-
Advertising and Promotion	301	-	-	-
Cost Share Expenses	-	3,929	-	-
Sales Tax Expense	26	-	-	-
Printing and Publishing	-	-	-	-
Freight	1,336	-	-	-
Miscellaneous	28	97	48	-
Repairs and Maintenance	95	-	-	-
Vehicle Expense	1,344	166	167	53
Dues and Fees	910	20	-	-
Meeting Expense	42	-	-	-
Refunds	44	-	-	-
Insurance	<u>459</u>	<u>459</u>	<u>459</u>	<u>-</u>
Total Expenditures	<u>57,946</u>	<u>27,723</u>	<u>20,214</u>	<u>4,800</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>\$ (15,238)</u>	<u>\$ 627</u>	<u>\$ 7,024</u>	<u>\$ 2,132</u>

Heritage Water Trails	Reforestation	Total
\$ -	\$ -	\$ 47,450
-	-	28,932
1,010	-	27,369
8	21,317	21,325
-	-	628
-	89	201
200	1	1,421
-	39	566
1,218	21,446	127,892
-	-	66,380
-	-	5,290
-	-	7,290
-	11,149	16,020
20	-	2,167
-	-	500
-	-	10,690
900	-	2,065
-	8	2,046
-	-	329
2,076	2,908	5,285
-	-	3,929
71	-	97
-	911	911
48	1,059	2,443
-	-	173
-	-	95
-	-	1,730
-	-	930
26	-	68
-	-	44
-	-	1,377
3,141	16,035	129,859
<u>\$ (1,923)</u>	<u>\$ 5,411</u>	<u>\$ (1,967)</u>



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146
E-mail
normanpaulsen@charter.net

Other Location:
123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252
E-mail
npnr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
St. Joseph County Conservation District

We have audited the financial statements of the St. Joseph County Conservation District as of and for the year ended September 30, 2006, and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

June 11, 2007

Norman & Paulsen, P.C.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)